REPORT OF THE COMMITTEE
ON
UTILISATION OF EXTERNAL ASSISTANCE

1964

OF FINANCE, DEPARTMENT OF ECONOMIC AFFAIRS
GOVERNMENT OF INDIA

NEW DELHI

D.O.No.M (ES&IT) /2 (2) /64.
PLANNING COMMISSION,
NEW DELHI.

13*th March*, 1964.

My dear Finance Minister,

In June 1963, your Ministry appointed Committee under my Chairmanship to examine the procedures for the negotiation allocation and disbursement of external assistance and to suggest measures to ensure speedier and more efficient utilisation. The Committee was also asked to examine the problems encountered by the private sector in its search for foreign technical collaboration or foreign capital investment.

The Committee has now concluded its work and I have pleasure in submitting its report herewith.

With kind regards,

Yours sincerely,
V. K. R. V. RAO

Shri T. T. Krishnamachari,
Finance Minister,
Government of India,
New Delhi.

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CHAPTER I—INTRODUCTION

Terms of reference of the Committee

The Committee on Utilisation of External Assistance was constituted by a Resolution of the Government of India in the Ministry of Finance, Department of Economic Affairs (No. F. 12/35/63 EF Co-ord. dated the 19th June, 1963). The circumstances leading to the appointment of the Committee are described in the Resolution as follows:—

"With the growing momentum of development and the diversification of the economy, there has been a significant increase in the range and scale of foreign aid operations in the country in recent years. The expeditious and effective utilisation of available external assistance has become an important factor in accelerating the pace of development. It has been decided, therefore, to set up a Committee under the Chairmanship of Prof: V. K. R. V. Rao, Member, Planning Commission, to examine the present procedures for the negotiation, allocation and disbursement of external assistance and to suggest measures in the light of such examination to ensure speedier and more efficient utilisation of available assistance in keeping with priorities in the Plan."

"The Committee will consider problems associated with the utilisation of external assistance from all sources and in all forms and will hold discussions for this purpose with representatives of Government Departments as well as of the public sector enterprises and private trade and industry. The Committe will also examine the problems encountered by private sector in its search for foreign technical collaboration or foreign capital investment."

2. *Composition of the Committee*:

The Committee consisted of the following:—

Prof. V. K. R. V. Rao, Member, Planning Commission—*Chairman.*

Shri B. N. Adarkar, Additional Secretary, Ministry of Finance.

Shri P. Govindan Nair, Additional Secretary, Ministry of Finance.

Dr. I. G. Patel, Chief Economic Adviser, Ministry of Finance, and

Shri V. K. Ramaswami, Economic Adviser, Ministry of Industry **(Member-Secretary).**

3. *Acknowledgements*:

The Committee addressed a number of Chambers of Commerce, Associations of Trade and Industry, Ministries of the Central Government, Chief Ministers and Secretaries of the State Governments, Public Sector undertakings and prominent businessmen. Attached as Appendix I is a list of those from whom replies have been received. The Committee also had a number of meetings with both non-officials and officers of the Government of India. It takes this opportunity of expressing its appreciation of the full cooperation it received from all concerned.

The Committee would also like to place on record its appreciation of the work done by Shri V. K. Ramaswami their Member-Secretary and by Shri K. Srinivasan, Officer on Special Duty, Department of Economic Affairs; Shri V. K. S. Nair and Shri N. S. Taneja analysed aid statistics and Dr. J. Krishnaswamy undertook case studies for the Committee.

CHAPTER II

ANALYSIS OF ASSISTANCE RECEIVED

4. A number of steps are involved in the negotiation and utilisation of external assistance, and several different types of aid are made available. It will be useful to set out the various steps involved and the main types of external assistance.*

5. The first step is a commitment or pledge of assistance, which constitutes an indication of the willingness in principle of a country or an institution to grant assistance of a specified amount. This is in the nature of an advance commitment which helps the recipient country to plan utilisation over a corresponding period. In the case of countries and institutions which are members of the Aid India Club (India Consortium) the pledges of assistance are made after a review of the development of the Indian economy and the requirements of further assistance at Consortium meetings. The U.S.S.R. and other countries, which are not members of the Consortium, pledge assistance after bilateral discussions. The pledges of aid are subject to appropriate legislative action or other authorisation by the lending country or institution and to the conclusion of bilateral loan agreements.

6. The next step is the authorisation of aid, which is secured when a formal loan agreement has been concluded. In a number of instances, the conclusion of the loan agreement would take place after the detailed requirements of the projects to be financed from the assistance have been worked out. In other instances, such as in the case of loans to cover raw material or miscellaneous machinery requirements, the loan authorisation may take place at an earlier stage.

7. Loans may be tied to projects or alternatively they may be available for non-project purposes. When loans are project-tied, they can be utilised only for the import of equipment for the specific identified project. It may be mentioned that loans from the International Development Association, while tied to projects, can also be drawn to cover expenditures incurred within India in rupees. Loans, which are not tied to projects, may be available to finance imports of components and raw materials, or in some few cases they may be granted to postpone debt repayments falling due. For example, the US AID has given some loans for import of raw materials such as metals and fertilisers while West Germany has extended loans for refinancing debt repayments due on Rourkela.

*A detailed account of procedures for use of various loans can be found in **Appendix II.**

8. There is another sense in which assistance may be tied. This relates to the permitted sources of supply of materials to be financed by the assistance. In the recent past, nearly all country assistance has been tied to purchase in the countries providing aid. The IBRD and IDA loans are however not so tied.

9. Some countries (*e.g.* France, Belgium and Italy) extend medium-term credits on a 'supplier to importer basis'. This is because the institutional arrangements in these countries are such that suppliers' credits are easier to arrange than direct Government lending. The credit risk of the supplier is covered by the country concerned under a suitable export credit insurance scheme.

10. In the case of assistance to finance imports into India, the disbursements are related to the payments to the foreign suppliers with whom orders have been placed. The utilisation is effected primarily by either of two methods—the letter of commitment procedure and the reimbursement procedure.

Letter of commitment procedure: The letter of commitment procedure is an undertaking by the lending country/institution to the banker of the suppliers that at the request of the borrower through a letter of credit, the banker is to make payments to the suppliers and that the amounts so paid will be reimbursed to the banker by the lending country/institution. This procedure is in vogue in respect of the credits made available by the International Bank for Reconstruction and Development (I.B.R.D. or World Bank) and some of the loans from the United States Agency for International Development (US AID). A variation of the letter of commitment procedure is the "Direct Payment" method under which payments to the suppliers are made directly out of the credit. This system is in operation in respect of U.K. and IBRD credits.

Reimbursement Procedure: Under this system payments to the suppliers are made initially through normal banking channels from free foreign exchange. After payments have been made the individual importers are required to supply to the borrower, who in this case is the Government of India, connected documents *e.g.* receipted invoice, a certificate of origin of the goods etc. These documents are later presented to the lender to claim reimbursement of the amount already paid to the suppliers. Under the reimbursement procedure, there is an initial outgo from the foreign exchange reserves of the importer's country, which is subsequently recouped from the loan account.

The reimbursement method is more popular among suppliers as they prefer payment through normal banking channels. This arrangement is also preferred by private importers in India as the procedures are sim-

pler. This method is in vogue in respect of most of the Government to Government credits that India has received.

11. The loans from East European countries are repayable through the export of goods. The repayments are made to rupee accounts, which are utilised by these countries to purchase goods in India.

12. We now turn to an account of the quantum of assistance made available by friendly countries and institutions. The total amount of loans/credits made available in foreign currencies (excluding commodity assistance from U.S.A.) authorised upto the end of the First Plan was Rs. 227 crores of which Rs. 126 crores was actually utilised. The total availability of foreign loans/credits (including the carry-over of Rs. 101 crores from the First Plan) during the Second Plan was Rs. 1400 crores. Out of this, an amount of Rs. 725 crores was utilised during the Second Plan period leaving a balance of Rs. 675 crores (excluding Rs. 29 crores of grants in foreign currencies). This amount included a sum of Rs. 329 crores, which though authorised during the Second Plan was really earmarked for Third Plan projects, primarily from the U.S.S.R. and other East European countries. In addition to this, there has been a further authorisation of loans/credits for the Third Plan, upto 31st December, 1963, of Rs. 1330 crores. As against this, the total amount disbursed during the first two and three quarter years (i.e. 1st April, 1961 to 31st December, 1963) of the Third Plan is Rs. 821 crores or an average of Rs. 299 crores a year. These figures exclude utilisation of loans and grants made available by the U.S. authorities from rupee counterpart funds, and also of Rs. 263 crores of grants made by various countries in foreign exchange which have been drawn to the extent of Rs. 240 crores.

Appendix III shows for major sectors of the economy the aid authorised, the orders placed and the amounts utilised. The time lag between ordering and payment is much less in the case of raw materials than for equipment for projects. When assistance is tied to the financing of projects, there must necessarily be some unavoidable delay in the utilisation of assistance. What can be avoided is delay in the placing of orders after the assistance is available: and it is this delay which can be legitimately criticised as causing delay in utilisation. It will help to clarify public discussion of these matters therefore if Government were to publish periodically statistics not only of the actual utilisation of assistance but also of the progress of ordering which involves commitment, though not disbursement, of the funds made available from assistance. We recommend that Government arrange for such periodic publication.

In Appendix IV, the overall position with regard to both ordering and disbursements against authorised aid at various dates in the past is

indicated*. It will be seen that there has been some slight improvement in this respect over the last few years. Broadly speaking, however, disbursements are more or less keeping pace with the increase in the aid authorisation. As the quantum of aid has increased, the amount in the pipeline has also gone up correspondingly. While, perhaps, it is inevitable that the amount of unutilised aid should go up with increase in the amount of aid authorised, it is clear that the overall position regarding utilisation revealed by the figures is not satisfactory.

Delay in utilisation, to the extent that it is technically not avoidable, is due to several factors pertaining both to aid giving and aid utilisation procedures, as also to other more fundamental reasons. We turn to an analysis of these in the two succeeding chapters.

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*NOTE:—Drawings from the International Monetary Fund of Rs. 321.37 crores and the Kuwait loan of Rs. 34.19 crores representing the value of special Indian notes which were repatriated have been included in Appendix III (Sections I & II) but not in Appendix IV. On the other hand, the Japanese *ad-hoc* loan of Rs. 8 64 crores to finance the import of equipment on deferred payment basis and DLF loans of Rs. 294.97 crores made available in foreign exchange but repayable in rupees have been included in Appendix IV while they are not included in sections I & II of Appendix III.

CHAPTER III

Present procedures for negotiation of assistance

13. In this chapter the present procedures for the negotiation of assistance are described. We consider in the first place the negotiation of assistance with institutions and countries which are members of the Aid India Consortium sponsored by the World Bank. The Consortium holds periodic meetings to consider the quantum of assistance that can be made available. A meeting has before it detailed information regarding the overall economic progress of the Indian economy and the developments in important individual sectors. While till recently the memorandum describing economic trends has been prepared by the World Bank staff, the Government of India has prepared the memorandum for the March, 1964 meeting and the I.B.R.D. has circulated this together with a brief covering note. The Consortium is also furnished at the same time with a list of the projects and programmes for which assistance is sought.

14. At the Consortium meeting, the progress of the Indian economy is reviewed, the country's aid requirements are assessed, and each country and institution pledges a certain quantum of assistance in principle. Sometimes it is necessary for the Consortium to meet initially for a general review of India's aid requirements and to meet again after a time interval for purposes of pledging assistance.

15. After aid has been pledged, the Government of India makes proposals to each country or institution with regard to the specific purposes for which its assistance should be utilised. In some cases, loan agreements can then be concluded specifying the terms and conditions of lending and the broad purposes for which the money can be utilised. Individual public sector authorities or private firms in India are thereafter authorised by the Indian Government to place orders within the framework of the inter-governmental agreement.

16. In certain other cases, such as with regard to assistance from the World Bank or loans to cover large project requirements from the U.S.A., there is no overall agreement. The lending authorities satisfy themselves in the first place regarding the broad economic soundness of the proposals put forward by the Indian Government and thereafter negotiate detailed loan agreements with the Indian project authorities concerned. Orders can be placed for equipment only after the detailed loan agreements have been concluded.

17. When assistance takes the form of suppliers' credits, the Indian importers and the suppliers abroad have to negotiate a sale contract. This

has to be processed through the concerned financial intermediaries in the country providing assistance. It is necessary for the Indian importers to provide acceptable guarantees of payment to the foreign suppliers.

18. The procedure of negotiation of loan agreements can be time-consuming. We have examined the time taken to conclude loan agreements to implement the pledges given at various Consortium meetings. We find that most of the loan agreements to cover amounts pledged in August 1958 Consortium were signed between 24th December, 1958 and 6th January 1959. There was a similar delay with regard to the pledges made at the Consortium conference of March 1959. In most instances, the loan agreements were signed between June and November 1960. The second U.S. Export Import Bank Loan Agreement for Rs. 23.81 crores for procurement of capital equipment for development programmes, and the German Credit Agreement of Rs. 11.71 crores for Rourkela re-financing were signed only in January 1961. Again, with regard to the commitments made at the Consortium conference of June, 1961 there were a number of cases in which loan agreements were signed after a year or more. Examples are the IBRD credit of Rs. 14·29 crores for ICICI, the IDA credit of Rs. 9.52 crores for the Kothagudam Power Project, the U.S. AID credit of Rs. 7·62 crores for the Delhi Power Project, the AID non-project loan of Rs. 114·29 crores and the German credit of Rs. 47·62 crores for Rourkela expansion.

19. In the case of bilateral negotiations with non-Consortium sources, there are also a number of stages. For example, the U.S.S.R. had, even prior to the start of the Third Plan, pledged assistance in principle for a number of industrial projects. The tentative list of the projects to be financed is then discussed between the Governments. For each project, a preliminary feasibility report is usually drawn up. If this is satisfactory, an agreement is concluded for preparation of a detailed project report and working drawings. The agreement for supply of plant and machinery follows the acceptance of the detailed project report and there are separate agreements with regard to the deputation of foreign technicians and specialists and the training of Indian technicians. As at the end of December 1963, orders placed amounted to 64 per cent of the assistance pledged by the U.S.S.R. and other East European countries. Even allowing for the fact that East European assistance is being utilised largely for projects requiring a relatively longer period for study and construction such as the manufacture of heavy machinery, the ordering against assistance has been unduly slow. The actual drawal of funds earmarked for such projects must, of course, necessarily be slow as the manufacture and delivery of equipment will be spread over a number of years.

20. On the evidence available, there can be no doubt that the process of aid utilisation requires to be speeded up at all stages. In the following chapter, we outline the main causes of slow utilisation. In Chapter V,

we suggest steps to improve aid utilisation in the public sector. In Chapter VI, we recommend measures for speeding up the drawal of project assistance for both public and private sectors and consider *inter alia* the procedures for screening imports from the view point of indigenous availability. In Chapter VII, we deal with the specific problems of the private sector. In Chapter VIII, we deal with the policies and procedures of the aid giving countries and institutions. In Chapter IX, we discuss the relation between foreign exchange budgeting and the use of assistance.

CHAPTER IV

Causes of slow utilisation

21. Our earlier analysis has shown that aid in non-project form can be utilised more rapidly than project aid. The availability of a greater share of aid in non-project form would thus speed up utilisation.

22. Non-project assistance is required for the purchase of commodities of various kinds and particularly those required for developmental purposes. It is a mistake to identify the import of equipment with the use of foreign exchange for developmental purposes. Aid giving countries and institutions may prefer the project approach because it is assumed that the impact of project assistance is easier to assess. We, however, feel that, when the whole development effort is planned, as is the case with India, there is no difficulty in assessing the impact of non-project assistance.

23. A number of commodities like fertilisers, steel and non-ferrous metals are used directly for developmental purposes, even if they are not capital equipment. The importance of stepping up the supplies of fertilisers in order to secure larger agricultural outputs is obvious. The use of a larger proportion of external assistance to finance metals, components, etc. is also essential if the country is to be independent of assisstance within a reasonable period of time. It is now generally accepted that while India must steadily increase export earnings, there must also be a rapid build up of production within the country of the industrial, power and transport equipment needed to sustain a higher rate of growth. During the last few years considerable capacity has been established for such production, but its use depends to a significant degree on the availability of imported components and raw materials. If, therefore, industrial capacity is to be effective, assistance in the next few years must be increasingly available for the import of these items.

24. The so-called non-project aid also covers equipment of small value needed for the setting up of small scale units and for expansion and modernisation both of large and small units. Aid used for this purpose is non-project only in the sense that detailed specific appraisal of each scheme by the lending authority is not feasible. From the economic point of view, however, it contributes as much directly to the expansion of industrial capacity as project aid proper. Yet another area that has to be covered by such non-project aid is the "secondary" require-

ments of projects. For instance, while the project aid would cover only the actual cost of the plant and machinery, there would be ancillary import requirements of construction machinery and of materials like steel (the cost of which may be considerable) which are required for the civil construction works.

25. Non-project aid is also needed to cover external debt repayments arising from loans contracted in the past on an unduly short term basis. While some assistance has been available for this purpose so far, the country has, by and large, to service external debt out of free foreign exchange resources as additional assistance has been tied to commodity purchase, and particularly to capital equipment. Assistance would go further if it were available for debt re-financing, releasing free foreign exchange for the purchase of goods needed for the full utilisation of the country's growing productive capacity.

26. There has, no doubt, been some increase in the last few years in the share of aid available for non-project purposes, and currently around 40 per cent of Consortium assistance is of this kind. A further increase in the share of non-project aid will speed up utilisation, promote the efficient use of industrial capacity in the country and secure a larger quantum of import with a given amount of external assistance.

27. A considerable part of external assistance must, however, continue to be tied to projects. The rate of utilisation of such assistance will depend on the speed and efficiency with which projects are implemented. We have, therefore, found it necessary to consider the arrangements for the preparation and implementation of projects, both in the public and private sectors. We have found that sufficient attention is not paid at the present time to the preparatory work needed prior to the decision to finally go ahead with the project. This inadequate planning has been a major cause of delay in aid utilisation. Improvements in this field would perhaps make the most important contribution to speedier and more effective utilisation of project assistance.

28. Once it has been decided to implement a project, the actual execution is also delayed for a number of reasons. These include after thoughts with regard to the scope of the project, delays in land acquisition, frequent references to administrative Ministries and to the Finance Ministry, inadequate planning by the project authorities, and time consuming screening of import applications from the view point of indigenous availability. In the next Chapter, we make a number of recommendations on each of these points with a view to reducing the delays.

29. Private sector projects are delayed partly for the same reasons as the projects in the public sector. The industrial licensing procedures

are, however, more specific to this sector. While the interim recommendations of another Committee, which have been accepted recently by Government, should help to eliminate many of the delays, we have also made certain recommendations in order to speed up aid utilisation by private sector projects.

30. The use of non-project assistance is also delayed as a result of faulty allocation and licensing procedures and we have devoted some attention to this matter.

31. The aid giving countries and institutions can help to promote speedier utilisation through amendments in their policies and procedures. We have referred above to the need for a larger share of assistance to be made available in non-project form. The reduction in the time lag between the pledging of assistance and the conclusion of loan agreements would be of great value. A number of procedural changes have also been suggested.

32. Finally, we have pointed out that the overall review of foreign exchange budgeting procedures can result in prompter and more effective use of assistance. At the present time, the budgeting is done only six months ahead with the result that effective forward planning by public sector authorities or private industrial units is rendered difficult. There is also inadequate coordination between the use of external assistance and of free foreign exchange. Better planning in this respect would help to speed up utilisation.

CHAPTER V

Steps to improve Aid Utilisation in the public sector

33. In this chapter we examine the steps that can be taken to speed up the use of assistance earmarked for public sector projects. As we have pointed out earlier, what is required is, in fact, better preparation of projects and more efficient implementation generally; speedier utilisation of aid will be a by-product of such an increase in the efficiency of execution of projects.

34. We have been impressed by the fact that the projects included in lists put forward to the Consortium are often not ready for immediate implementation in the event of funds being made available. In fact, there is a dearth of well conceived projects for which all the necessary preparations have been made for the placing of orders as soon as foreign exchange becomes available. A thorough review of the arrangements at present in vogue for project preparation appears to be essential.

35. There is an important middle ground between the overall national mapping of resources on the one hand and detailed work on individual projects on the other, which middle ground is today comparatively neglected. Organisations such as Geological Survey of India carry out surveys of the overall national resources of different types of minerals. Similarly, continuing studies are undertaken on a general basis of meteorological conditions, forest resources, soil characteristics etc. There is not, however, enough detailed study of mineral availabilities, soil conditions, forest resource availabilities etc. in specific areas from the specific view point of the establishment of individual industries. For example, the expansion of the cement industry is being delayed because there has not been an adequate study from the view point of commercial exploitation of limestone availabilities. Similarly, in spite of the big expansion envisaged in aluminium production, the bauxite resources have not been studied in sufficient detail. It is only when a decision, in principle, has more or less been taken to establish an individual industrial unit in a certain location that studies in depth are made of material availabilities, water resources etc. This naturally results in considerable delay in implementation. We are of the view that considerably greater attention must be paid to industry oriented geological, meteorological, mineral, soil, water and forest resource studies, which necessarily will mean, in many cases also, area-oriented studies in depth. We recommend that assistance be sought from the U.N. Special Fund and the World Bank for these surveys. The results of these surveys should be available for both the public and the private sectors and thus enable them to get a better view of the development programmes they can undertake.

36. Another essential step prior to the preparation of a detailed project report is the preparation of an economic and technical feasibility study. It is only if a large number of feasibility studies are available that the most promising opportunities can be identified and detailed project reports commissioned. It is on the basis of feasibility studies that rational decisions can be taken as to the most worthwhile among alternative investment possibilities. We would emphasise that the feasibility report should not merely be technological in character but should fully explore the economic aspects, taking due account of the possibilities of economising on the use of scarce resources such as foreign exchange. No project should be proposed for aid unless a feasibility report has been completed. These reports must be of a high standard so that they are accepted by the institutions and countries providing assistance as justification for the acceptance of the projects in principle. The planning organisations in the public sector undertakings and in certain technical agencies of Government such as National Industrial Development Corporation have recently been strengthened and are better equipped than before to undertake such feasibility studies. There should be further strengthening of the concerned agencies and a sufficient number of feasibility studies should be prepared in order that the most promising among them may be chosen as a basis for project report preparation.

37. The preparation of a detailed project report is the next stage. There has been a natural tendency to defer the preparation of such reports until assistance for the project has been promised or at any rate until the probable source of assistance has been located. The reason advanced to justify the postponement of preparation of project reports to this late stage is that the appropriate agency to be chosen for preparation of the report may depend on the source of finance. The instructions to the agency preparing the report may also depend on the type of aid since most of the "country" aid is tied to that source of supply; for example, the project report would need to be based on the use of American equipment and processes if American financing is sought. Again, the East European countries have normally wished to prepare the project reports for projects to be financed by them. We consider, however, that in spite of these difficulties it is desirable for Government to commission project reports for the important projects likely to be put forward for external financing, in advance of the identification of the source of aid. Even if further studies need to be done after earmarking of assistance from a particular source, considerable time will have been saved as a result of the preparation of the project report before asking for assistance. We recommend, therefore, that detailed project reports should be under taken in every case either through consultancy firms or departmentally, in advance of the final earmarking of assistance for the project. It would be desirable to draw up panels of firms which should be Indian as far as possible but may also include foreign firms for preparation of project reports in each major field, such as power, steel and heavy industries.

The World Bank, the U.N.T.A.B. (United Nations Technical Assistance Board), etc. can assist Government in selecting suitable firms for inclusion in the panels. We recommend further that the aid-giving countries should be requested to agree to finance the preparation of project reports involving substantial foreign exchange expenditure, without necessarily committing themselves to financing the projects themselves.

38. Once a project report has been prepared and approved and assistance has been secured, it is important that the scope of the project should not be altered. We have found that changes at a later stage in the scope of projects are an important cause of delays in implementation. The preparation and scrutiny of adequate feasibility reports prior to the project report preparation stage would operate to remove a major reason for change in the scope of projects at a later stage. Thus, financial clearance was given for the opthalmic glass project with Russian collaboration only recently, though the credit provision was made in 1957 under the 500 million Roubles credit negotiated in 1956. There were some delays initially because the question of whether foreign collaboration was most necessary was raised. Later, however, after the preparation of the project report, doubts arose as to the extent of the market and the profitability of production. These are matters which should have been settled at an earlier stage. There are other instances in which the capacity to be established has been increased after the detailed project report has been prepared, because of revision of estimates of requirements; the Gorakhpur Fertiliser Project, the Namrup Fertiliser Project, and the Durgapur Special Steels Project provide examples. Another example of a project which has been badly delayed as a result of change in the scope of the project at a late stage is the Salandi Irrigation Scheme sanctioned against an IDA credit of dollars 8 million; the agreement was signed in November, 1961 and became effective in January, 1962.

39. Another cause of delay has been with regard to the acquisition of land. The present legal position is such that land acquisition procedures tend to be very protracted. We are aware that the selection and acquisition of land for industrial units has often been done inefficiently and haphazardly in the past and that, therefore, there is considerable public feeling that the Government's authority to acquire land should be circumscribed. There have been instances in which land has been acquired and a very considerable time has elapsed before it has been put to industrial use. The payment of compensation to and rehabilitation of agriculturists whose land has been acquired has often been tardy and inefficient. The site chosen has sometimes been changed after acquisition of land. Certainly, there should be careful selection of land before acquisition and it should be taken over only at the stage when construction work can be started. The implementation of industrial projects and use of assistance

should not, however, be held up because of lengthy procedures for acquisition of land. We recommend that Government review the legal position and take whatever steps are necessary to speed up land acquisition. The legislation should, of course, have adequate safeguards against abuse of the powers.

40. As a result of lack of proper advance planning of industrial projects, there is not always proper estimation of the overall cost at the outset. We should like to stress the importance of preparation of reasonably accurate overall financial estimates. To avoid delays in execution, suitable time-table should also be prepared at the start, against which progress can be measured. If the project authorities make proper preparations through adequate advance planning, the frequent reference to the administrative Ministry and the Finance Ministry can be done away with. The project should then be given complete freedom within the overall amount to place orders, subject to there being no material change in the scope of the work.

41. Action on the above lines should result in both prompter use of external assistance and in reducing the rupee investment on projects in the public sector.

CHAPTER VI

Procedures for disbursement of project aid

42. In this chapter we consider the various procedures for ordering and import of equipment and the drawal of foreign assistance. We discuss in particular the procedures for screening applications from the view point of indigenous availability, and the financial checks exercised by the administrative Ministry and the Finance Ministry with regard to imports by public sector projects.

43. The scrutiny of import applications is undertaken primarily by the Directorate General of Technical Development, though for certain items other technical agencies of Government may be concerned. Broadly, the procedure is that the detailed lists of goods are submitted along with the import application to the D.G.T.D. The officers of the D.G.T.D. go through the lists to see whether any of the items can be secured from indigenous manufacturers. They may ask the project authority to try firms who are making some of the items sought to be imported. If the project authority can produce evidence to show that the indigenous manufacturers cannot supply the items, or that the delivery dates are undoubtedly prolonged, the import may be allowed. The officers of the D.G.T.D. also check to see that the overall value of the import proposed is reasonable having regard to the list of goods.

44. It has been represented to us that this system results in considerable delays. When the list of goods is long, a number of officers in the D.G.T.D. will be concerned with the scrutiny and considerable time may be taken. When the capacity available in the country for the manufacture of an item is inadequate to meet all demands, and imports must be permitted to some extent, the process of referring every applicant to the indigenous manufacturers and permitting import only to those who are turned down wastes time. The deletion of minor items from complete plants may not result in any appreciable foreign exchange saving, particularly if the import content of the indigenous production is taken into account. The quality of the indigenous product may not always be satisfactory, and there may be difficulties in securing guarantees from the foreign suppliers of the main equipment if the use of some items of indigenous equipment is insisted on. Most important of all, it has been pointed out that in many lines the delivery periods of indigenous manufacturers are very prolonged, and that therefore the use of expensive imported equipment may be delayed because of the lack of balancing quipment to be procured in India. An extreme case came to our notice where, in the case of a dairy development scheme

aided by UNICEF (United Nations International Children Emergency Fund), a cheese plant was not allowed to be imported as some components of a cheese plant were made in India. In the end, we are told, Government had to purchase the whole cheese plant and lost the opportunity of getting it free from the aiding agency.

45. Officers of the Department of Technical Development have explained to us that much is being done to minimise the inconvenience to projects as a result of the detailed scrutiny of the lists of goods. The deletion of doubtful items is not insisted on, if they do not constitute more than, say 5 per cent of the total cost of the imported equipment Periodic meetings of officers are held at which pending applications are considered and finally disposed of. The indigenous manufacturers are asked to supply monthly reports of production, and outstanding orders, and the Department can ascertain from these reports the up-to-date supply position of each item. Delivery dates are stated to be taken into account when considering whether import should be allowed. A list of indigenous manufacturers with names, addresses and detailed items produced, has been published and is kept up-to-date so that the project authority can fully explore indigenous sources before applying for import. The detailed screening for indigenous availability is stated to be essential if full use is to be made of the manufacturing capacity in the country and waste of foreign exchange is to be avoided; project authorities often prefer imports purely on grounds of somewhat lower cost, even though fully satisfactory indigenous products are available for prompt delivery. The detailed screening has been simplified in the case of some industries by prescribing monetary ceiling for standard plants; for example, today foreign exchange to the extent of Rs. 45 lakhs is allowed for each cement plant of 100 tons per day capacity. It is expected that, in two to three years, the figure of Rs. 45 lakhs can be very substantially reduced, when items such as heavy castings are indigenously available. Meanwhile, within the monetary ceilings, each importer of a standard plant in the cement, paper, sugar or super-phosphate industries has flexibility with regard to the items to be imported and bought indigenously respectively.

46. We are fully convinced that the screening by the D.G.T.D. has resulted in promoting desirable growth of Indian industry, particularly in the field of machinery manufacture. There cannot be any question of wasting foreign exchange by permitting imports of items that are indigenously available on an economic basis in order to cater to any irrational preferences of project authorities for imported supplies or te eliminate the inconvenience of combining indigenous and imported supplies. Nevertheless, we feel that certain further amendments should be made in the procedures in force at present in order to secure prompter utilisation of assistance. We consider that the changes that we have recommended are not likely to result in any significant import of items

that are indigenously available. The most effective safeguard against unnecessary import is the limited allotment of total foreign exchange made available to each project in the public or the private sector, whether for capital equipment or for components and raw materials. It is in the interest of the project itself, therefore, to do its utmost to locate indigenous sources of supply in order to use the available foreign exchange in the most effective manner.

47. As has been mentioned above, the practice has already been introduced of setting monetary limits for the import of standard plants in certain industries such as cement, sugar and super phosphates. Each unit has the flexibility to decide which items to import and which to secure indigenously, within the monetary ceiling. As a result, the most effective use can be made of indigenous capacity, while minimising the delay in the setting up of plants. We recommend that this procedure be extended to as many industries as possible. There need not be any detailed scrutiny of items, provided that the monetary ceilings are adhered to and subject of course to the exclusion of banned items.

48. It should also be possible to exempt the smaller units from the detailed check of lists of items proposed for import. It is the small units in the private sector which suffer the most inconvenience and frustration, as a result of detailed scrutiny imposed by the D.G.T.D. The small businessmen, particularly those from outside Delhi, have to undertake protracted correspondence or pay frequent visits to Delhi in order to get their applications cleared. We recommend a certain relaxation of procedures with regard to industrial units with fixed assets of less than Rs. 25 lakhs, which have recently been exempted from the licensing provisions of the Industries Development and Regulation Act. When these units apply for the import of equipment, the D.G.T.D. should take a broad view as to the legitimate amount of total foreign exchange expenditure needed to establish the capacity proposed. In forming this view the D.G.T.D. would naturally take into account the availability of indigenous capacity for manufacture of the equipment in question. Once the broad view has been taken and Government has allotted a certain amount of foreign exchange in principle, there should be no need for a further scrutiny of the import application, with a view to disallowing particular items from the indigenous angle. The firm should be permitted to import equipment as it chooses within the overall amount of exchange allotted, subject of course to banned items not being imported and the capacity as proposed being established. There could legitimately be a post-audit by the D.G.T.D. to ensure that reasonable use has been made of the foreign exchange released.

49. For the larger projects, prior screening of the lists of imported equipment seems to us justifiable in the present conditions. Delays can, however, be minimised if the project authorities consult with the D.G.T.D. at as early a stage as possible. Instances have been brought to our notice

in which the project authorities particularly in the public sector have gone far in negotiations with foreign suppliers or have actually issued formal tenders and have thereafter asked the D.G.T.D. to certify that there is no objection to the import. We recommend that strict instructions should be issued with regard to the early reference of cases to the D.G.T.D. Officers of the D.G.T.D. should also be encouraged to dispose of cases speedily by suitable appreciation of the work of those who avoid delays.

50. The D.G.T.D. has done a great deal in recent years to improve the availability of information with regard to indigenous supplies of equipment. We feel, however, that there is still scope for considerable improvement in this regard. The detailed information with respect to the production and order book position of individual manufacturers should be kept on cards, frequently up-dated and be accessible to public and private sector industrial units, and cross-checked on the basis of reports from consuming units.

51. On the basis of such detailed information, the items of which there is adequate supply in the country may be banned for import, both by established importers and actual users. We understand that the so-called banned items at present are merely those for which there is no quota for import by the established importers. What is required is a detailed list of items for which import is not necessary by any category of importer. With regard to the items which cannot be placed on the banned list because internal production is inadequate to meet all requirements, there is justification for permitting import by actual users.

52. The high cost of many types of Indian equipment is one reason for the preference of industrialists for imported supplies. The high cost is due, in part to low utilisation of capacity and consequent dis-economies of scale. We consider that every facility should be given to the Indian manufacturers of equipment including foreign exchange for spare parts and components to enable them to supply on reasonable terms. In certain other respects also Indian manufacturers of equipment are today at a disadvantage in relation to foreign suppliers. Thus, Indian machinery manufacturers cannot easily find the finance to offer equipment on deferred payment basis, whereas foreign equipment often carries financial accommodation with it. We recommend that the Development Bank or other suitable institution take up, as a matter of high priority, the financing of such indigenous capital equipment supplies. Also we recommend that high priority be given to machinery manufacturers in the allotment of foreign exchange for the import of components and raw materials, in order that the cost may be brought down through full capacity working. The import of such components and raw materials can very appropriately be financed against non-project assistance. Incidentally, by reducing the import component of project equipment, it will also reduce the foreign exchange requirement of project assistance.

53. Greater attention should be paid than is the case at present to the collection of information with regard to the prices of imported equipment. The collection of such price data is essential both for determining whether import should be allowed or not and to decide between alternative foreign sources of supply. The Directorate General of Supplies and Disposals and the D.G.T.D. could cooperate in the collection of such information. Government agencies abroad such as the India Supply Mission and the India Supply Department could also assist in the work. Such data are especially lacking for some of the European countries which are now offering us credits and we recommend that suitable agencies be set up to cover such countries.

54. The private sector can actively assist in the collection of information regarding the indigenous availability of various items, particularly of capital equipment, and regarding prices. If the units requiring equipment and those manufacturing it can agree on what items can reasonably be allowed for import, some of the present delays can be eliminated. There could be separate committees with regard to each major type of equipment and the Federation of the Indian Chambers of Commerce and Industry and the Associated Chambers of Commerce could be requested to organise such committees. The deliberations of the committees would be of great value to the D.G.T.D. and other concerned technical agencies of Government. The Committees will not, of course, be asked to screen individual applications; their role would be advisory, and they would provide broad indications as to the policies to be followed with regard to the import of equipment by different industries.

55. There is scope also for simplification of present procedures with regard to the screening of applications for import of components and raw materials from the view point of indigenous availability. The requirement of prior clearance of lists of components and raw materials could be done away with. There should, however, be provision for reporting of orders placed and prior clearance could be insisted on in the case of units which abuse the facility given. The grant of flexibility to industry both in the public and the private sector, with regard to the items to be imported within the overall allocation for a half year should result in a significant improvement in efficiency. It would, for example, be possible for an engineering unit to import quickly any spareparts that may be urgently needed, or to import a component which is proving difficult to manufacture while making some other component instead. The overall allotments to each unit for a period would, of course, be limited on the basis of the capacity, the phased manufacturing programme and the total availability of foreign exchange.

56. We turn now to the financial controls with regard to the ordering of imports by public sector projects. A major source of delay has been

the requirement that a public sector project must secure the clearance of the administrative Ministry/Ministry of Finance before placing each order for imported equipment or components or raw materials except to the extent of certain delegated powers. Once foreign exchange from specified sources has been allocated for the import of equipment, there should be no further need for the project authority to make a reference to the administrative Ministry or the Finance Ministry. Similarly, the project authority should be given full freedom to order components and raw materials against the half-yearly allocations of exchange made from different sources, without having to make a reference to the administrative Ministry/Ministry of Finance. The project authorities would naturally have the responsibility of ensuring that loan and credit conditions prescribed by the aid-giving institution or country are observed and arrangements should be made to ensure that they are fully acquainted with such prescribed procedures. The projects themselves should have better arrangements than at present for reviewing inventories and placing orders on a scientific basis, in order to minimise stock-holdings. There should also be provision for a post-audit of use of foreign exchange by the projects under these delegated powers.

CHAPTER VII

Problems of the private sector

57 Many of the recommendations that we have made in earlier Chapters will help in securing prompter utilisation of assistance not only by the public sector but also by the private sector. For example, the surveys of geological and other resources on a more specific basis would make it easier for the private sector to develop worthwhile projects speedily. We recommend to private industries that they also pay somewhat more attention than in the past to the working up in detail of projects which can be put forward for external assistance. It has been reported to us that private sector proposals are quite often not worked out in detail at the stage at which assistance is allocated in principle. Our recommendation that no project should be put forward for assistance unless there is a feasibility study would apply as much to the private sector as to the public sector.

58. In this Chapter, we make a number of specific recommendations in order to secure prompter utilisation of assistance by the private sector and to promote foreign investment and collaboration in worthwhile fields. We are aware that a number of changes have been made recently in the procedures for regulation of the establishment of additional capacity in the private sector in order to reduce delays. We shall first outline the procedure as it was till recently. Parties proposing to set up a new unit or to undertake a substantial expansion were required to apply for a licence under the Industries Development and Regulation Act, if the fixed assets of the undertakings exceeded Rs. 10 lakhs. The applications were considered by the Licensing Committee which took into account the extent of licensing already done in relation to the planned target, the priority of the industry, the availability of power and rail transport, the phased manufacturing programme, if any, the requirements of imported or scarce indigenous raw materials, the proposed location etc. If the Licensing Committee approved a proposal, a licence was issued under the I.D. & R. Act. In the case of some major projects, only a letter of intent was issued and not a licence; the party was told that a licence would be issued if specific arrangements with regard to collaboration terms, financing of the import of equipment etc. were completed in a specified period. The next stage was for the party concerned to submit proposals with regard to foreign collaboration (where required) and the financing of the import of capital equipment. The proposals for the import of equipment would, where possible, be accompanied by lists of goods. In many cases, however, only a broad picture of the import requirements of equipment was given, as a detailed list of goods could not be prepared

until the arrangements proposed had geen approved in principle. The import applications were in the first place screened by the D.G.T.D. or other concerned technical authority, and then forwarded to the administrative Ministry who placed the case before the Capital Goods Committee. If foreign collaboration proposals had also been made, these were either dealt with by the administrative Ministry if within its delegated powers or brought before the Foreign Agreements Committee (the composition of which was identical with that of the Capital Goods Committee) together with the import proposals. The policy followed by the Capital Goods Committee has been to insist on financing against private investment, private long term loans or loans from institutions or governments abroad, except when the requirements of a project were very small and a cash release was possible. In many instances, the C.G. Committee has been able only to give approvals, in principle, of alternative methods of financing, involving negotiations with the financing agencies concerned, such as the U.S. Agency for International Development and the Export Import Bank, Commonwealth Development Finance Corporation and the Industrial Finance Corporation of India and the I.C.I.C.I. In determining the source of financing, the C.G. Committee took account to the extent possible of the information put before it regarding the costs of purchase of equipment for the project from alternative sources. In cases in which the financing had already been firmly arranged such as when private foreign investment or a long term loan was available, the businessmen could secure an import licence straightaway from the CCI&E (Chief Controller of Imports and Exports). In most instances, however, they had to negotiate with the lending agency concerned after securing the approval in principle from the C.G. Committee. In other instances the cases were also kept on waiting lists for governmental credits and final clearance was given to the parties after the credit was available. Generally, the detailed list of goods were finalised after negotiations with lending agencies and collaborators had been carried to a certain stage of finality. These were then screened by the D.G.T.D. etc. and the actual issue of import licences was after the financial arrangements had been completed.

59. Recently, this system has been changed in certain respects. First, the Finance Minister announced that the exemption limit for licensing under the Industries Act would be raised from Rs. 10 lakhs to Rs. 25 lakhs. In cases in which the total fixed assets of the undertaking are less than Rs. 25 lakhs, the businessmen can go ahead without securing any approval from Government if they do not require any imported equipment or imported raw materials or indigenous materials which are allocated by Government. In cases in which import of equipment is required, the parties concerned have been advised to secure the necessary capital goods clearance before entering into other commitments; in this category of cases the proposals can be placed direct before the Capital Goods Committee without the preliminary screening by the Licensing Committee. Where imported equipment is not required but the undertaking will need

imported raw materials or indigenous materials subject to allocation, businessmen have been advised to consult the concerned technical authority of Government before entering into commitments. These steps should help to reduce delays considerably, as the processing of an application under the I.D.&R. Act has, we understand, taken on average around six months.

60. Government have also recently accepted the recommendations in the interim report of the committee on Industrial Licensing Procedures. The interim recommendations of the Committee relate to the processing of applications in certain key industries. For these industries, the applications are to be considered by a high level Committee which will, when necessary, discuss matters with the applicants in order to arrive at prompt decisions. In the first place, only letters of intent are to be issued and not licences under the I.D.&.R. Act. The letters of intent are to specify a period of six months within which the businessmen must take necessary steps to finalise arrangements. The final sanction of an Industries Act Licence, the collaboration proposals and the arrangements for the import of equipment are then to be cleared simultaneously and priority is to be given to these industries in the allocation of exchange for the import of equipment.

61. We understand also that Government are streamlining the procedure for dealing with proposals involving foreign investment. A high level Committee has been established which is being serviced by a single senior officer who will serve as the focal point for advising potential foreign investors and their Indian collaborators on their proposals. Questions with regard to the scope for development in a particular industry, the extent of foreign participation that is acceptable etc., will be quickly considered and answered on the basis of the policies in force.

62. We are in full agreement with these various steps that have been taken to simplify procedures, and we consider that they will materially assist in prompt utilisation of assistance. In our view, certain further steps are also desirable.

63. It is particularly important that new entrepreneurs should be assisted to develop projects in a manner acceptable to financing institutions and collaborators and capable of being implemented speedily. The financial institutions point out that many of the loan applications that they receive from new entrants to industry are not carefully worked out, and similarly foreign firms which receive collaboration proposals do not always get all the information that they may reasonably expect. It seems to us that there is need for providing greater assistance to newcomers in the industrial field to develop worthwhile projects. A possible agency for this purpose is the Indian Investment Centre, and we recommend that it

devote greater attention to assisting industrialists in working up projects. The services of private consultancy firms would of course be available for the preparation of detailed project reports, but the Investment Centre should be able to advise in greater detail on the feasibility of such proposals.

64. Industrialists are not always aware of the various sources from which credits are available to finance the import of equipment. As a result, projects are developed on the basis that imports will be effected from countries for which no credits are available and a change in source of supply at a late stage becomes necessary, resulting in a waste of time and money. We realise that under the present procedures as set out in Chapter III it is not always possible to forecast well in advance the details of foreign aid that would be available to the private sector. We recommend, however, that at the earliest stage possible Government should publish periodic information regarding the availability of such credits for the private sector from different sources, as a guide to businessmen. Whenever possible, industrial units which ask for an indication in principle as to the types of financing which will be acceptable for the import of equipment should be given all the alternative sources of supply that are available. This will make it possible to bring down equipment prices as a result of competition among suppliers in different countries. It may sometimes happen that a particular credit is no longer available by the time that the business negotiations have been completed and the industrial unit may have to wait for another credit to finance import from that particular country or go to another source of supply. Nevertheless, giving industrial units the choice of two or three alternative sources of supply is preferable to indicating only a single country, for restriction to a single source will tend to put up prices and also result in slower utilisation of assistance.

65. The external assistance to finance the import of equipment is made available to the private sector in three main ways. First, in the case of major projects, the private industrial units may be authorised to negotiate loans direct from foreign institutions, such as the USAID and the Export-Import Bank, the International Finance Corporation and the Commonwealth Development Finance Corporation of the U.K. Secondly, for medium sized projects financial institutions in India such as the Industrial Finance Corporation of India and the Industrial Credit and Investment Corporation of India grant sub-loans in foreign exchange against foreign exchange loans available to them from the World Bank, the USAID, the German Kreditanstalt, etc. Thirdly, foreign exchange borrowed by the Government from foreign Governments and institutions is made available to private industry against payment of the equivalent in rupees. The availability of foreign exchange of the third type is at the

present time inadequate. There have been a number of instances in which industrial units requiring relatively small amounts of foreign exchange for balancing plant or for setting up small new units have been asked to negotiate foreign exchange loans even though they have had rupee resources and could have imported their requirements most speedily if foreign exchange had been made available against cash payment in rupees. It will assist industry if some larger amounts of external assistance than in the past are made available for the import of equipment against cash payment in rupees by the private industrial units concerned.

66. In a number of instances, however, the non-availability of adequate rupee finance has delayed the implementation of projects, in priority industries for which foreign exchange has been earmarked in principle. The Industrial Finance Corporation of India and the ICICI have provided assistance and their rupee resources have recently been augmented. We consider, however, that the institutional arrangements in this regard require further review. An aspect of the shortage of rupee finance has been difficulty of some industrial units in providing guarantees for deferred payments from foreign suppliers and improvements in the procedural arrangements for securing such guarantees are called for.

67. With regard to technical collaboration arrangements, each individual proposal is considered on merits, having regard to the policy followed in previous cases and the priority of the requirement. It has been suggested to us that some standardisation of the terms acceptable to Government will reduce delays in the consideration of these proposals. On the other hand, it has been argued that if standard terms are laid down, these will become minima. We feel that further thought should be given in Government to the possibility of drawing up standard collaboration terms for different types of industry, for internal guidance if not for publication.

68. In conclusion, we should like to refer to the suggestion occasionally made that the private sector has not received its fair share of the external assistance made available to the country. We do not wish to enter into any controversy on this point but would like to record the facts. Out of the total quantum of assistance made available till the end of September 1963, for purposes other than re-financing of debt, balance of payments and commodity imports, the share of the private sector has been 30%. The allotment for industrial development in the public sector has also been 30% and the remaining 40% has been devoted to infra structure requirements, such as railways, transport, and power, which are essential for the development of both the public and the private sector.

CHAPTER VIII

Policies and Procedures of Aid giving Countries

69. A major contribution that can be made by the aid giving countries and institutions to prompter utilisation will be through an increase in the share of non-project assistance. We have argued earlier that a larger quantum of non-project assistance would, given the present stage of development of the Indian economy, be of considerable value, apart from securing quicker utilisation. An allied point is that project assistance can legitimately be defined more liberally to cover components and balancing plants required to be imported to manufacture complete plants in India, and the initial stock of components of machinery manufacturing industries whose equipment is financed by aid.

70. We have referred also earlier to the considerable delay between the pledging of assistance and the conclusion of loan agreements. We have suggested that delays for which India is responsible can be reduced if the preparation of projects is carried further before assistance is requested. The countries and institutions providing assistance can help by making a selection in principle of projects and programmes as part of the Consortium exercise. Alternatively, the process of selection could be completed within a specified period of say two months after a Consortium meeting. Even if the formal conclusion of loan agreements takes somewhat longer, it could be agreed that orders for equipment should be placed immediately after acceptance in principle, and that payments made after that date would be eligible for reimbursements.

71. We have suggested above that panels of firms should be drawn up for the preparation of project reports in different fields, and that the aid giving countries and institutions should agree to finance project reports even if the projects themselves are not later picked up for finance. It would help if the aid giving countries and institutions agree to accept project reports prepared by firms on the panel without insisting that a firm nominated by the aid giving agency should prepare a project report.

72. The earmarking of the entire foreign exchange cost of a project at the start is a major cause for apparent delay in utilisation. The partial financing technique provides one solution to this difficulty. Under partial financing arrangements, the lending country or institution earmarks in the first instance only part of the foreign exchange needed for

the project. This amount would cover the payments in say the first year of the implementation of the project. In each subsequent period, funds would be earmarked against the further assistance that may be made available, broadly to cover the payments in that period. As a result, the funds allocated in a year can be more or less fully utilised in that year without being carried forward to cover payments in later years against orders already placed. The difficulty with the partial financing technique is that, if sufficient funds are not allotted by the aid giving country or institution in later periods, or if there is no agreement on the use of funds that may be earmarked to cover these payments, there may be no alternative but to use free foreign exchange. Partial financing can, therefore, only be acceptable if there is a clear understanding that payments falling due will be a first charge on such assistance as may be made available by the particular country or institution. Also, it would be wise to limit the application of this technique to projects of high priority. Within these limitations, it can play a useful part in speeding up utilisation by reducing the amount of assistance which is in the pipeline.

73. The bulk of project aid will, in the present circumstances, continue to be tied to projects in the country providing assistance. In practice, most projects require small amounts of equipment from third countries and location of suitable means of financing of such requirements has taken time and has resulted in delay in the implementation of projects. To give an example, the Foundry Forge Project at Ranchi has required some import of equipment outside Eastern Europe and the financing arrangements have taken time to complete. It would be of considerable assistance if at least 10 per cent. of the aid made available for a project is permitted to be utilised in third countries.

74. The World Bank and the IDA require that orders should be awarded to the lowest tenderer, and they do not permit the grant of preference to indigenous suppliers. Under Indian conditions, there are a number of instances in which Indian suppliers charge somewhat higher prices in terms of rupees but require less foreign exchange for undertaking an order. We recommend that the World Bank and the IDA should be asked to relax, in appropriate cases, the requirement that only the lowest tender should be accepted, in order to enable fuller use to be made of the industrial capacity available in India and to facilitate the conserving of foreign exchange resources.

75 The American authorities require that the use of American assistance should be based on tenders confined to American firms. In cases in which global tenders were invited in the first instance re-tendering in the U.S.A. has become necessary when it has been decided to use American assistance. We recommend that the American authorities be requested

to accept the results of global tenders, if a reasonable number of American firms have participated. The order would, of course, be awarded to the lowest among the American tenderers.

76. In a number of instances, there are minimum value restrictions on ordering against external assistance. We appreciate the desire of aid giving countries and institutions to keep paper work to a minimum. Nevertheless the minimum value conditions operate unfairly against the smaller units. We recommend that at least in so far as requirements of the small industry are concerned, those giving aid should endeavour to remove the restrictions.

CHAPTER IX

Foreign Exchange Budgeting and the Use of Assistance

77. We should like to refer in this Chapter to some broad policy questions of foreign exchange budgeting.

78. There is a natural anxiety to ensure that commitments are not entered into beyond the foreign exchange resources that are definitely available. Foreign exchange budgeting is, therefore, done on a half yearly basis. Both free foreign exchange resources and external assistance from different sources enter into the foreign exchange budget. The amounts allocated in any given half year are based on estimates of the balance of payments position, the assistance definitely available and other relevant factors.

79. There is no doubt that avoidance of unduly large import commitments which the country may not have the resources to honour must be a primary objective of policy. Nevertheless, it is difficult for the agencies in the public and private sectors which are responsible for the implementation and running of projects to do efficient forward planning if there is no indication whatsoever of the likely level of availability of foreign exchange beyond a six month period. In the case of funds for the import of equipment against specified sources of assistance, such as definite loan agreements, we have recommended earlier that further references to the Finance Ministry should not be necessary. The reports sent in by the projects with regard to the latest estimate of ordering and payments should be taken into account in the preparation of the foreign exchange budget, but fresh formal allocations each half year and formal releases of exchange for each separate order should not be necessary in such cases.

80. There is need also for giving the authorities responsible for arranging imports some forward indication beyond six months of the availabilities of exchange for the import of components and raw materials. A definitive indication is clearly not possible, for export prospects are uncertain and the availability of assistance is also not known on a long term basis. Nevertheless, the public sector projects could be advised that, in the six months following the current half year the allotment of exchange would not fall below certain specified levels. In the case of projects requiring specialised components and raw materials with long delivery periods, such as the units manufacturing heavy electrical equipment

or heavy industrial machinery, the project authorities should prepare their foreign exchange budgets to cover at least two or three half years' requirements and authorisations for the placement of orders could then be given on that basis.

81. There is provision for annual licensing of the requirements of components and raw materials of most private sector industries. It is, however, indicated that the second halves of licences will be subject to adjustment in value at the start of the second half of the year. It would help private industry if it were announced that the allotments against the second halves of the licence will in any event not be less than some specified percentage of the allocations in the first half year and that orders to that extent may be placed in advance though the actual shipment and payments can be affected only in the second half of the financial year. It would be desirable also to ensure that the licences for issue in any given half year are physically issued within three months of the start of the licensing period. An allotment which is nominally unchanged may in fact entail a significant reduction if the issue of the licence is delayed by some months.

82. Greater attention might usefully be devoted to somewhat detailed forward planning of foreign exchange to cover a period of two to three years ahead. While broad estimates of requirements of components and raw materials are made for a Plan period as a whole such estimates are not tied as effectively as would be desirable with the administrative allocations of foreign exchange on a half yearly basis. Continuing planning of the use of foreign exchange for some intermediate time period, such as two years, would help to bridge the gap between short term administrative allocations and five yearly planning. There is a natural tendency when making six monthly allocation to avoid radical departures from the pattern of allotment in the preceding period. The proposed allotments must be compared to an up-to-date assessment of the requirements of each sector within the framework of development visualised in the Plan.

83. The use of free foreign exchange resources to some extent to secure the efficient and prompt use of aid cannot be avoided. The rule that the requirements of imported equipment of the projects must be financed from external assistance or investment is a sound one, and we have suggested that some of the difficulties arising from the country tying of aid need to be overcome by third country use of assistance being permitted to some extent. Nevertheless, there will be instances in which some use of free foreign exchange to complete a project, the requirements of which have been almost entirely covered by assistance, may be very worthwhile for the economy. The integrated planning of the use of free foreign exchange and aid not only for six monthly periods but from

a somewhat longer perspective, will help to secure that the right decisions are taken.

84. In conclusion, we should like to stress that improved aid utilisation depends not only on streamlining procedures but on raising the level of efficiency of Plan implementation. Our report has therefore had to cover a wide field. We hope that the suggestions and recommendations that we have made in this report, while directed essentially towards the objective of improving the pace of aid utilisation, would also assist in the basic task of facilitating more rapid growth.

(V. K. R. V. RAO).

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Summary of main conclusions and recommendations

1. Chapter I is the introduction to the Report.

2. In Chapter II, the assistance made available by various friendly countries and institutions is described and the progress of ordering and disbursement is analysed. It is pointed out that the disbursement of project-tied assistance is related to the deliveries of equipment, and must therefore be spread over several months or years. There should not, however, be any delay in placing orders as soon as assistance becomes available. It is recommended that Government should publish periodically statistics of ordering against available assistance, in addition to data regarding disbursements. (para 12).

3. The present procedures for the negotiation of assistance are described in Chapter III.

4. Chapter IV contains an analysis in summary form of the major causes for delay in utilisation and serves as an introduction to the substantive portion of the report. The need for a larger share of assistance to be in non-project form is stressed.

5. In Chapter V steps required to be taken to improve the utilisation of assistance by public sector projects are considered. The main conclusions are as follows:—

   (a) The middle ground between the overall mapping of resources and the detailed study of particular projects is not adequately covered. Considerably greater attention must be paid to geological, meteorological, soil, water and forest resources studies. Assistance may be sought from the U.N. Special Fund and the World Bank for these surveys. (para 35)

   (b) With regard to individual projects, the real initial stage is the preparation of a feasibility report. No project should be proposed for aid unless a feasibility report has been completed. Large numbers of feasibility studies must be prepared in order that schemes for which it would be worthwhile to prepare detailed project reports may be identified. The feasibility studies must cover both economic and technological aspects and must be of a high standard so that they are acceptable to the institutions and countries providing assistance. (para 36)

(c) The next stage is the preparation of detailed project reports. In the past, such preparation has often been deferred till an unduly late stage. The early preparation of such reports should be insisted on for each project which is considered to be *prima-facia* feasible. It would be useful to draw up lists of Indian and foreign firms qualified to prepare project reports in different fileds. The institutions and countries providing assistance could be requested to agree to finance the foreign exchange cost of the preparation of project reports, without being committed to financing the projects themselves. (para 37)

(d) A major cause of delay has been the change in the scope of projects at a late stage. Such changes should be avoided. (para 38)

(e) Another cause of delay has been with regard to acquisition of land, the erection of township, etc. Government should review the legal position and take whatever steps are necessary to speed up land acquisition subject to certain safeguards. (para 39)

(f) The need to secure financial sanctions at every stage is also a cause of delay. Once the overall cost estimate has been sanctioned, the project authorities should have complete freedom within the overall amount to place orders, subject to there being no material change in the scope of the work. For this the preparation of reasonably accurate overall financial estimates is necessary. (para 40)

6. In Chapter VI, the procedures for drawal of funds for projects for which assistance has been earmarked are considered. It is concluded that while the screening of import applications by technical authorities to eliminate items available within the country has been of undoubted value in conserving foreign exchange and promoting industrial development, it has also been a major cause of delays. The financial control procedures also require to be modified. The following suggestions are made :—

(i) In the case of certain industries the practice is followed of setting monetary limits for the import of standard plants, and there is no detailed scrutiny of the list of goods. The practice of relying on monetary ceilings rather than on detailed scrutiny of items should be extended to a number of other industries also. (para 47)

(ii) The existing procedures of detailed check of lists of items to be imported by units with fixed assets of less than Rs. 25

lakhs should be relaxed; such units should be allotted a certain overall amount of foreign exchange and within this overall ceiling, subject, of course, to banned items not being imported and the capacity as proposed being established, the unit should be allowed to import equipment as it chooses. For the larger projects prior screening of lists of imported equipment seems justified but delays here could be minimised if project authorities consult the D.G.T.D. at as early a stage as possible. (paras 48 and 49).

(iii) Much greater effort should be devoted by the D.G.T.D. to the collection of really detailed and up-to-date information regarding the equipment manufactured in the country and the order book position of individual manufacturers This information should be kept on cards, should be accessible to public and private sector industry, and should be cross-checked on the basis of reports from customers. (para 50)

(iv) While items for which indigenous capacity is sufficient to meet all requirements should be banned in the import trade control policy, a liberal view should be taken with regard to the import by actual users of other items of capital equipment. (para 51)

(v) If Indian equipment becomes more competitive, the screening of lists of equipment proposed to be imported from the view point of indigenous availability will become easier. A major reason for the high cost of Indian made equipment is the shortage of components and raw materials for the machinery manufacturing industries. These industries should be given high priority in the allocation of available foreign exchange. They should also been enabled to offer equipment on deferred payment basis, and the Development Bank or other suitable institutions should provide finance for this purpose. (para 52)

(vi) Attention should be paid to the price aspect when screening import applications. Collection of price data is essential, both for determining whether import should be allowed or not and to choose between alternative foreign sources of supply. The D.G.S. & D. and the D.G.T.D. could cooperate in the collection of such information. Government agencies abroad could assist in the work. (para 53)

(vii) The private sector should be asked to actively assist in collection of information regarding the indigenous availability of

various items particularly of capital equipment. If the units requiring equipment and the manufacturers can agree on what items can reasonably be allowed for import, many of the present delays can be eliminated. There could be separate committees with regard to each major type of equipment, and the Federation of the Indian Chambers of Commerce and Industry and their Associated Chambers should be requested to organise such committees. (para 54)

(viii) Prior clearance by the D.G.T.D. should not be necessary with regard to the import of components and raw materials by public sector projects. Reporting of orders placed may however be insisted on. This procedure may also be extended to the private sector, at least for priority industries. (para 55)

(ix) A major source of delay has been the requirement that a public sector project must secure the clearance of the administrative Ministry/Ministry of Finance before placing each order for imported equipment or components or raw materials of more than small value. Once foreign exchange from specified sources has been allocated for the import of equipment, there should be no further need for the project authority to make a reference to the administrative Ministry or the Finance Ministry. Similarly, the project authority should be given full freedom to order components and raw materials against half-yearly allocations of exchange made from different sources, without having to make a reference to the administrative Ministry/Ministry of Finance. The project authorities would naturally have the responsibility of ensuring that loan conditions are observed. The projects themselves should have better arrangements than at present for reviewing inventories and placing orders on a scientific basis, in order to minimise stock-holdings. There should also be provision for post-audit of use of foreign exchange by the projects under the delegated powers. (para 56)

7. In Chapter VII the specific problems of the private sector are considered. The following suggestions are made:—

(a) The new entrepreneurs should be assisted to develop projects in a manner acceptable to financing institutions and collaborators and capable of being implemented speedily. The Indian Investment Centre should expand its activities in this field, and provide detailed advice regarding the feasibility of proposed projects. (para 63)

(b) Government should publish periodically information regarding availability of credits from different sources for financing the import of the equipment. This will help businessmen to choose sources of supply for which funds are available. (para 64)

(c) Industrial units should be offered as wide a range of choice as possible with regard to the sources of supply. While this may in some instances mean that a change of source will need to be accepted after equipment has been selected, it will in general operate to bring down prices of equipment as a result of competition amongst suppliers in different countries. (para 64)

(d) In a number of instances, the private industrial unit proposing to import capital equipment requires not a loan but foreign exchange against cash payment in rupees. At the present time, the availability of foreign exchange for this purpose is inadequate. Somewhat larger amounts should be made available for this purpose against Government to Government loans. (para 65)

(e) The non-availability of adequate rupee finance has operated to delay the implementation of a number of priority projects for which foreign exchange has been earmarked. The I.F.C. and the I.C.I.C.I. have been of assistance, but the institutional arrangements in this regard require further review by Government. (para 66)

(f) The possibility of laying down standard foreign collaboration terms for different industries should be examined by Government. (para 67).

8. In Chapter VIII, the policies and procedures of aid-giving countries and institutions are considered. The following suggestions are made:—

(a) Non-project assistance should form a larger part of the total. Project assistance should be defined to include components needed for the manufacture of capital equipment and the initial stock of components of machinery manufacturing industries whose equipment is financed by aid. (para 69).

(b) The delay between pledges at the Consortium meeting and actual commitments can be reduced if selection of programmes and projects is made as part of the Consortium exercise. Alternatively, such selection should be made within a specified period of, say, two months after a Consortium meeting. This pre-supposes that projects and programmes put forward at Consortium meetings will be at an advanced

stage of readiness; earlier recommendations have been designed to secure this. (para 70).

(c) The delay in placing of orders can be reduced if it is agreed in advance that all orders placed after the date of Consortium pledge will be picked up for financing in the event of loan agreements being concluded. (para 70).

(d) The commitment of the entire foreign exchange cost of a project at the start is a major cause for apparent delay in utilisation. While partial financing is a solution, it has its limitations and it should be resorted to only for high priority projects. (para 72).

(e) It will be of considerable help if at least 10 per cent of the aid given for a project is made available for purchase in third countries (para 73).

(f) The World Bank and the I.D.A. should agree to relax the requirement that the lowest tender should be accepted in order to permit placing of orders on indigenous suppliers who may charge higher prices but who would require less foreign. exchange. (para 74).

(g) The U.S. authorities may be requested to relax the requirement that there should be tendering confined only to the United States if American assistance is to be forthcoming. The results of global tenders should be accepted. (para 75).

(h) The minimum value restriction on use of external assistance should be done away with to the extent feasible. (para 76).

9. In Chapter IX, the manner in which foreign exchange budget procedure should be revised to ensure the prompt use of assistance is discussed. It is suggested that the use of assistance of different types and of free foreign exchange should be carefully co-ordinated. It should be possible to forecast minimal availabilities of foreign exchange for a few half years ahead. On the basis of these estimates medium term plans for the utilisation of both external assistance and free foreign exchange could be prepared. If the users of foreign exchange have some idea of the magnitudes of releases likely to be made to them for a few half years ahead, they can programme utilisation more effectively than at present.

It is pointed out in conclusion that improved aid utilisation depends not only on streamlining procedures but on raising the level of efficiency of Plan implementation. The hope is expressed that the suggestions and recommendations made in the report, while directed essentially towards the objective of improving the pace of aid utilisation, would also assist in the basic task of facilitating more rapid growth.

The Hindustan Photo Films Ltd.
The Indian Drugs and Pharmaceuticals Ltd.
The Hindustan Antibiotics Ltd.
The Indian Refineries Ltd.
The National Coal Development Corporation,
The Fertilizer Corporation of India
The Heavy Engineering Corporation.

Chambers of Commerce and other Organisations

(iv) Federation of Indian Chambers of Commerce and Industry, New Delhi.

The Associated Chambers of Commerce of India, Calcutta.
The Bombay Chambers of Commerce & Industry
The Madras Chamber of Commerce
The Bengal National Chamber of Commerce & Industry, Calcutta
The Bharat Chamber of Commerce, Calcutta
The Indian Chamber of Commerce, Calcutta
The Bihar Chamber of Commerce, Patna
The Southern Indian Chamber of Commerce, Madras
The Punjab & Delhi Chamber of Commerce, New Delhi
The Maharatta Chamber of Commerce, Poona
The Tuticorin Chamber of Commerce
The Cochin Chamber of Commerce
The Indian Engineering Association, Calcutta
The Indian Rubber Industries Association, Bombay
Association of Merchants and Manufacturers of Textile Stores & Machinery, Bombay
All India Association of Industries, Bombay
The Indian Merchants Chamber, Bombay
The All India Manufacturers Organisation, Bombay
Tata Industries Private Ltd.
The Chairman, Industrial Credit and Investment Corporation of India Ltd., Bombay.
The Chairman, Industrial Finance Corporation, New Delhi.
The Chairman, Indian Investment Centre, New Delhi.

Individual Businessmen

(v) Shri Babubhai M. Chinai
Shri G. D. Birla
Shri B. M. Birla
Shri R. G. Saraiya
Shri G. D. Somani
Shri A. M. M. Murugappa Chettiar
Shri G. M. Modi
Shri B. L. Jalan
Shri M. A. Chidambaram
Seth Kasturbhai Lalbhai
Shri Padampat Singhania
Shri S. P. Goenka
Shri Neville N. Wadia
Shri Arvind Mafatlal
Shri Ramnath A. Podar
Shri N. Dandekar
Shri T. S. Krishna
Shri C. H. Bhabha
Shri D. P. Mandelia.

APPENDIX II

Procedures of aid giving Countries/Institutions

Procedure for utilisation of foreign credits depends upon the nature of the credit. Generally speaking, there are two types of credits viz. (i) to the Government of India from the foreign lending country or institution and (ii) to the Indian importer arranged by the foreign supplier through his bankers. The former credits are known as direct credits and the latter as suppliers credits.

2. *Direct credits to the Government of India.*—Agreements for such credits are entered into by the Department of Economic Affairs and the foreign exchange accretion under the credits is made available to the importers in public and private sectors. The Indian importers (both in public and private sectors) enter into cash contracts with foreign suppliers and the payments to the suppliers are made either initially from Government resources and subsequently reimbursed under the credit or directly out of the credit. In the case of public sector purchases, after payments have been made out of the credit in the case of direct payment arrangements, debits are raised on the project authorities in the usual way and the payments are adjusted in accounts. In the case of private sector contracts for which payments have to be made directly out of the credit, in order to safeguard Government position, bank guarantees are furnished by the private firms undertaking to deposit the rupee equivalent of payments into Government account. The Department of Economic Affairs receive advice about the payments to the suppliers and call upon the private importers to deposit the rupee equivalent into Government account.

3. *Suppliers credits.*—The credits from France, Belgium and Italy are in the nature of suppliers credits. A part of the credit from Holland and Japan is also in the form of suppliers credit. For using such credits, the Indian importers whether in the public or private sectors enter into contracts on deferred payment basis with the foreign suppliers. The terms and conditions of the deferred payment credits are incorporated in the contracts. Based on the approved payment terms which are indicated in the import licence, the Indian importers make remittances to the foreign suppliers as and when payments fall due. One difficulty with the suppliers credit is that an advance payment ranging between 1% to 15% is payable to the suppliers as only the balance is guaranteed under the extended export credit arrangement. The procedure as in the case of the French

credit is complicated as in addition to issuing promissory notes evidencing the debt the prices also have to be renegotiated in order to conform to the pattern of payments required to meet the procedure for operation of the credit.

4. *Procedure for withdrawal (utilisation) of funds from IBRD/IDA Loans/Credits.*—As soon as a project is approved in principle by the IBRD/IDA authorities, a detailed project report is sent to them. After going through the report, an appraisal team is deputed by them to make an on the spot study of the project and the financial implications and on the basis of this appraisal report the terms of the loan/credit are then settled with the Bank/IDA by a negotiating team comprising of the representatives of the project authorities and the administrative Ministry. After approval of the Executive Board of the Bank/IDA, the loan documents are signed by the authorised representatives of the Bank/IDA and the borrower. But the borrower's right to withdraw from the loan account accrues only after the loan has been declared effective on production of legal opinion to the effect that the Loan Agreement/Guarantee Agreement has been properly executed and ratified.

5. IBRD/IDA extends loans to (i) the Government of India and to (ii) the public sector autonomous bodies or private sector industries under guarantee of the Government of India. In both these types of loans, procedures have been laid down by these two institutions for withdrawal of funds from the loan account. These are known as Case I Case III, Case V and Case VI procedures, brief details of which are indicated below:

5.1. *Case I Procedure.*—Payment for imports against the loan/credit is initially made by the borrower and then got reimbursed from the Bank/IDA by submitting prescribed applications.

5.2. *Case III Procedure.*—Under this procedure there are two methods:

(a) Payments to be made by the Bank/IDA direct to suppliers on receipt of a request from the borrower in the prescribed form supported by documentation;

(b) Advance withdrawal by the borrower for subsequent payments to the suppliers.

5.3. *Case V Procedure.*—A borrower may wish to use a letter of credit in connection with the purchase of goods which will ultimately be financed out of the Bank/IDA Credit and in certain cases the commercial bank involved may be unwilling to issue or confirm the credit without some security. In such cases the borrower may request the Bank/IDA to issue

to the commercial bank its *irrevocable agreement* to reimburse the commercial bank for payments made under the credit. A borrower wishing to use this procedure should submit an application to the Bank/IDA using case V procedure.

5.4. *Case VI Procedure.*—A borrower may wish to use a letter of credit in connection with the purchase of goods which will ultimately be financed out of the Bank/IDA credit and in certain cases the commercial bank involved may be unwilling to issue or confirm the credit without some security. In such cases the borrower may request the IDA/Bank to issue to the commercial bank its *qualified agreement* to reimburse the commercial bank for payments made under the credit. A borrower wishing to use this procedure should submit an application to the Bank/IDA using Case VI procedure.

6. Project authorities are given the option by the Bank/IDA to follow one or more of the above procedures. To ensure quicker disbursement of loan amount and avoid complications with suppliers Case I procedure is preferred, even though it involves an outgo of foreign exchange from free resources in the first instance. The burden on this account does not become heavy because the time lag between submission of withrawal application by the borrower and issue of withdrawal authorisation by the Bank/IDA is not considerable.

7. *Drill by user Ministries.*— (i) Before a loan proposal is made, the particular project/projects sponsored by the administrative Ministry are approved by the Department of Economic Affairs in consultation with the Planning Commission and clearance is also obtained from the C.G. Committee.

(ii) IBRD/IDA loans can be used for procurement of goods and services etc., as detailed in the List of Goods approved by the Bank/IDA for each loan agreement.

(iii) Procurement of goods is on the basis of broad international bidding and the offer has to be made to the lowest technically acceptable tenderer belonging to a country which is a member of the Bank or to Switzerland. But there are exceptions which have been specifically agreed to by the Bank/IDA authorities in each such case.

8. *Loans from Export-Import Bank, U.S.A.*—The Export Import Bank which is also an agency of the U.S. Government, works in close collaboration with the Agency for International Development of USA and picks out projects for its financing out of the proposals made by Government of India to the AID. Its financing is confined to the acquisition in USA and

exportations to India of Capital equipment, initial spare parts and related services required in connection with the programme of economic development in India, covering both public and private sector projects. (The Eximbank is not wedded to any particular form in which the loan application should be prepared).

9. The loan application after examination, if considered adequate, is transmitted to Eximbank through the Indian Embassy, Washington. The Eximbank, after examination, conveys its intention to the Government of India or to the private party concerned. This is followed by a draft loan agreement which is thereafter signed in Washington. The legal opinion and other conditions precedent to implementation of the loan agreement are then fulfilled.

10. The procedures to be followed in respect of Export Import Bank loans are laid down in detail in a booklet issued some time ago. The procurement is done mostly by Directorate General of Supplies and Disposals or by India Supply Mission, Washington in respect of Government Departments and public sector projects. In respect of private sector industries, orders are placed direct by them with reference to the import licences issued to them. The Eximbank's mode of payment is similar to that obtainable under the reimbursement procedure applicable to AID. The Eximbank has, lately however agreed to issue a letter of guarantee to certain banks within stipulated limits in the USA so that more or less the letter of commitment procedure as in the case of AID loans may also be followed.

11. Eximbank's loan agreements stipulate cent per cent shipping on US vessels but there has been agreement between the Bank and the Government of India that 50% of the Cargo can be shipped on Indian ships. In case, no Indian or US vessel is available, prior wavier from US Maritime Administration has to be obtained. The freight etc. paid to Indian or third country vessels is not eligible for financing out of the loan funds.

12. *Development Loan Fund/Agency for International Development Loans.*—After a decision is taken regarding the projects that are to be submitted to US AID, a loan application is prepared by the appropriate Administrative Agency or the private sector firms as the case may be in the proforma laid down in the Feasibility Manual published by U.S. AID. The application is thereafter scrutinised by the Department of Economic Affairs and also by the Ministries of Industry and International Trade in case of loans to private sector firms and if found in order it is sent to the AID, Washington, through the Indian Embassy. The loan application is referred to the Exim Bank by the AID with a view to ascertaining their willingness to pick up the project for financing. In case

they are not willing it is then taken up by AID. After examination of the loan application and after approval of the same, the Agency for International Development indicates their intention to the Government of India of their decision to extend a loan. This communication known as "Letter of Intent", indicates the broad purpose for which the loan is proposed to be extended, the terms of repayment and such other information as may be considered important. Thereafter a draft loan agreement is also sent to the Government of India and after scrutiny and discussions between the two agencies, the loan agreement is signed either in India or in Washington as may be appropriate.

12.1. *Implementation of the loan.*—The procedures to be followed in respect of the DLF/AID loans are laid down in considerable detail in the implementation letters issued in respect of each loan agreement. These conditions indicate *inter alia* the points at which consultations/approval with or of AID may be necessary. These conditions may vary from one loan to another but broadly may be classified into three sets, *viz.* (i) conditions relating to specific projects; (ii) conditions relating to non-project loans; and (iii) conditions relating to the loans directly extended to the private parties but where certain functions are required to be performed by the Government of India. The detailed aspects of all the conditions are considered in the succeeding paragraphs.

12.2. The loan agreement itself stipulates certain conditions which are to be fulfilled before any payments can be made under the loan. These conditions may be stated as under:—

(a) A legal opinion in support of the validity of the agreement has to be furnished by the Government of India. This is usually given by the Attorney-General of India;

(b) The Joint Secretary in the Department of Economic Affairs has to nominate officers who will transact business with AID in respect of various matters. The officers nominated in this respect are: The Chief Accounts Officer, ISM and the Accounts Officer, ISM;

(c) Furnishing to AID a list of eligible items to be financed under the loan. This is mostly applicable to AID non-project loans.

12.3. The Implementation Letters issued in respect of each loan agreement also *inter alia* contain certain conditions which are to be fulfilled before any payments can be made under the loan. These conditions in respect of specific projects (*e.g.* power) relate to the submission of the engineering plans, details of the contracts awarded, scope of the consultancy services etc. After these details are furnished and approved by the AID, AID are then ready for disbursement under the loan either on letter of commitment or reimbursement basis.

12.4. The requests for establishment of the letter of commitment have to be made in accordance with the instructions set out in the relative

implementation letters. These requests shall indicate the AID loans, Dollar value, name of the U.S. Bank, name of the approved applicant, expiration date and nomenclature of items to be financed.

12.5. The procurement of A.I.D. financed funds on behalf of Government Departments and public sector undertakings is done by D.G.S. & D. or I.S.M. and necessary letters of commitment are obtained by that organisation direct in consultation with C.A.O., I.S.M. In respect of the licences issued by the Ministries of Industry, Steel Mines and Heavy Engineering, requests for letters of commitment are made by those agencies to C.A.O., I.S.M. through the Accounts Branch of the Economic Affairs Department though previously they used to make direct requests. In the case of direct loans to private parties, requests are made by the parties concerned direct to the AID.

12.6. *Mode of payment.*—In respect of specific project loans and imports by Government Departments and public sector undertakings against non-project loans, the letter of commitment procedure is followed and in respect of non-project imports by private sector firms, reimbursement procedure is followed. Reimbursement procedure also becomes necessary in cases where imports have to be permitted before the loan agreement is signed and conditions precedent to initial financing, as per para 12.2. above, are fulfilled.

12.7. The following covenants concerning procurement etc., have also to be observed:—

(a) *Eligibility date.*—No goods or services may be financed by the Loan which arise out of orders or contracts firmly placed or entered into prior to the date mentioned in the loan agreement.

(b) *Reasonable Price.*—The Borrower covenants to pay no more than reasonable prices for goods and services financed under this Agreement, which should normally approximate the lowest competitive price for the goods and services procured, quality, time and cost of delivery, terms of payment, and other factors considered.

(c) *Competition.*—Goods and construction services financed by the Loan shall be procured on a competitive basis.

(d) *Small Business Notification.*—The Borrower shall cause to be received by A.I.D., at least thirty (30) days, or such longer period as A.I.D. may determine, prior to the time of ordering or contracting for any goods or service costing more than the equivalent of Five Thousand United States dollars (5,000), a description (in the English language with specifications in terms of United States standards) of goods or services to be financed by the Loan and of the manner of submitting bids therefor; provided however, that A.I.D. may, upon application by the Borrower, reduce such notice period or waive any or all requirements of this Section in

its application to particular transactions where it deems that such action is necessary.

(e) *Source of Procurement.*—All goods and services financed by the Loan (including transportation but excluding marine insurance) shall have their origin in and shall be procured from the United States of America.

(f) All consultancy services contracts have to be approved in advance, at a draft stage, by A.I.D. This is a Congressional imperative.

(g) American personnel engaged by any one of the consultancy firms or appointed direct by any one of the projects are to be cleared by the Department of State U.S.A.

12.8 *Shipment.*—One of the conditions included in the loan agreements is that a minimum of 50% should be carried in the U.S. Bottoms and ocean freight on U.S. Bottoms is payable from loan funds.

12.9. *Drill for the actual users.*—The procedure to be followed by the private sector licences against the non-project loan, is laid down in great detail in the public notices issued by the former Ministry of Commerce & Industry and the Department of Iron and Steel under each loan. These public notices contain in addition to the above mentioned conditions, the details to be furnished to the Administrative Agencies for meeting the reporting requirements indicated in the Implementation letters.

12.10. *Utilisation of goods and services.*—All goods and services, financed under the loan should be utilised promptly for the purchase for which they were obtained. A.I.D. reserves the right to make on-the-spot-inspections to verify that the goods have been so used.

13. *Procedure for Utilisation of Credits—West European Countries, United Kingdom, Canada & Japan.*

13.1. *Danish.*—The projects to be financed under the credit have already been agreed to in the Credit Agreement itself. The drawals from Danish Credit are made only after payments had been made to the suppliers in the usual way through banking channels. On production of certain documents in proof of the fact that payments have been made to the Danish suppliers, reimbursement is obtained of the payments already made to the suppliers under the Credit.

13.2. *Italian.*—The Italian credits are in the nature of extended suppliers' credits. A part of the credit is available as non-project aid.

13.3. *Dutch*.—65% of the Dutch credit is in the form of a general purpose loan and the balance of 35% consists of extended suppliers' credits guaranteed by the Dutch Government. For the general purpose loan both the direct payment and reimbursement procedures are applicable. The extended suppliers credit is a deferred payment arrangement spread over a period of 10 years from the date of last shipment of the equipment.

13.4. *Austrian*.—The purchases under the Austrian Credit are intimated to the Austrian Authorities who advise the Austrian suppliers of the availability of financing under the Credit. It is only after receiving this confirmation about financing that the suppliers start manufacture of the equipment. According to the arrangements agreed to for the operation of the credit, Letters of Authority are issued by the Department of Economic Affairs to the Austrian National Bank for each payment, as and when it falls due. For this purpose, Austrian suppliers have to inform the Indian importers of the payments due, and on receipt of request from the importers the Department of Economic Affairs issue the letters of authority.

13.5. *Belgian*.—The procedure for utilisation of the Belgian credit is that on certification by the Government of India that a particular import is included in the Third Five Year Plan and has been assigned adequate priority, the Belgian supplier would approach the Belgian export credit insurance organisation Office National du Ducroire through his bankers for acceptance of the proposal for export credits. The payment terms usually require a down payment of 5% on order and a further payment of 10% on delivery of equipment and the balance 85% value of the equipment is payable in 10 years from the date of delivery. Export credit insurance charges would usually be included in the price itself and in addition to it interest between 6.5 to 6.75% would be charged.

13.6. *German*.—Under the German Credit payments are to be made to German suppliers by the Kreditanstalt directly out of the credit. Kreditanstalt makes the payment to the suppliers only when the contract has been transmitted to it by the Indian High Commission in London. The importer's bank in India for private sector purchases sends intimation to the Kreditanstalt. The Kreditanstalt makes payment on the German suppliers and sends intimation to the Loans & Credits Section of the Indian High Commission in London.

13.7. *French*.—French Credit is in the nature of extended suppliers' credits.

13.8. *Swiss*.—Swiss Credit follows the principle of reimbursement *i.e.* payment has first to be made to the suppliers out of free resources. It is only after 100% payment has been made to the suppliers and supporting documents have been collected that reimbursement of 90% value of

the payment made is obtained. The balanse of 10% is met from free resources.

13.9. *U.K.*—Drawals can be made either directly out of the credit or reimbursement can be obtained on the basis of certain documents furnished by the importers. In the case of balance of payment credits, there is no difficulty in drawal as U.K. authorities want only some indication of the payment having been made to the U.K. suppliers. This indication is given on production of exchange control forms certified by the U.K. paying banks. In the case of public sector, usually payments are made by the Chief Accounting Officer, High Commission of India, London, directly out of the credit. In the case of private sector, remittances are made by the private parties in the usual way through banking channels. After the payment has been made by the importer in India, he sends receipt and invoices plus a certificate showing that the goods are manufactured in U.K. These documents are passed on to the Indian High Commission in London for obtaining reimbursement from the Credit.

13.10. *Japan.*—Japan has been extending these credits in two ways (i) suppliers' credits, and (ii) direct credits to the Government of India. As soon as copies of contracts are received from firms, they are sent to the Export Import Bank of Japan for securing their approval. It takes about two months or so for the Bank to give the approval in each case. For public sector contracts payments are initially made to the suppliers from Government of India resources through a special account of the Embassy of India in Tokyo and thereafter the payments are reimbursed under the credit. Private sector parties open special letters of credit on the Japanese Banks nominated by the Exim Bank of Japan. On the basis of this letter of credit, the Japanese bank makes payments to the Japanese supplier directly out of the credit.

13.11. *Finnish.*—This is a suppliers' Credit.

13.12. *Canadian.*—These credits are available to finance purchase of Canadian capital goods under the provisions of Export Credits Insurance Act of Canada. The benefit of the credit will accrue to the Government of India in case of public sector projects and private importers who want to pay cash. In the case of other private importers the benefit will accrue to themselves.

14. In the case of public sector projects and those private sector projects who do not want to avail of the credit facility, two agreements will be signed, one, between the Government of India and the Canadian Export Credit Insurance Organisation called the 'Financial agreement' setting out the terms of repayment etc., and the supply contract between

the importer and the supplier for import of machinery etc. Supply contracts will mention that import of machinery etc. is being financed under the agreement signed between the Government of India and the E.C.I.C. The Government of India will issue promissory notes to E.C.I.C. who will make the payments to the supplier.

15. In the case of loan to private parties, the importer will enter into a contract direct with the E.C.I.C. after providing such guarantees as the E.C.I.C. want. Draft contracts will be approved by the Ministry of Commerce & Industry in consultation with the Ministry of Finance.

16. *Credits from U.S.S.R., Poland, Yugoslavia and Czechoslovakia.*—The payment to the foreign suppliers for supply of machinery etc. is made by the State Bank of that country against Letters of Authority/Guarantees issued by the Department of Economic Affairs on the request of the project authorities in India. The foreign bank of the country raises a debit against the Government of India as and when the payment is made to the foreign suppliers and intimates to the Ministry of Finance the payments made against the Letter of Authority/Guarantee. The project authorities are asked to deposit the rupee equivalent to the account of the Government of India.

APPENDIX III

Statement of External Assistance for which agreements have been concluded and utilisation as on 31st December, 1963

(Rs. Crores)

Source of the Loan	Total amount for which loan agreements have been signed upto 31-12-63	Value of equipment/stores ordered upto 31-12-63	Loan amounts utilised upto 31-12-63	
1	2	3	4	5
I. *Loans Repayable Directly in Foreign Currency*				
1. *I.B.R.D. Loans*				
'A' *Economic infrastructure*				
1. Railways	179·91	179·91	179·91	
2. Aviation . .	2·67	2·67	2·67	
3. Ports	30·48	22·80	16·38	
4. Irrigation & Power .	43·54	43·00	41·16	
'B' *Industrial Development*				
1. Steel Plants	74·59	74·59	74·59	
2. Coal Production .	25·96	13·92	1·06	
3. Development of Private Industries (loans to ICICI)	42·82	18·74	17·22	
4. Agricultural machinery .	3·43	3·43	3·43	
TOTAL IBRD	403·40	359·06	336·42	
(2) *I.D.A. Loans*				
'A' *Economic infrastructure*				
1. Railways	32·14	24·81	15·67	
2. Ports	8·57	1·76	1·30	
3. Irrigation & Power .	53·56	23·71	11·01	
4. National Highways .	28·57	22·49	10·98	
5. Telecommunication .	20·00	11·39	2·59	
TOTAL IDA .	142·84	84·16	41·55	

1	2	3	4	5
(3) *United Kingdom Loans*				
'B' *Industrial Development*				
1. Steel Plants (Durgapur) .	64·66	56·64	37·24	
2. Oil Pipeline Construction .	4·00	4·00	4·00	
3. Import of Machinery .	199·32	182·00	152·55	
4. Import of Steel .	4·67	4·00	0·32	
TOTAL UK .	272·65	246·64	194·11	
(4) *Federal Republic of Germany*				
'B' *Industrial Development*				
1. Steel plants including finance for repayment .	181·93	181·93	136·94	
2. Import of machinery including commodities and services	106·25	51·31	43·21	
3. Untied cash credits .	61·92	61·92	61·92	
4. For infrastructure projects	9·76	9·76	..	
TOTAL—GERMANY .	359·86	304·92	242·07	
(5). *U.S.A. Bank Loans and Loans from the Boeing Company*				
A. *Economic infrastructure*				
1. Aviation (Purchase of aircraft) . . .	12·30	12·30	7·04	
Wheat Loan from U.S.A. .	90·31	90·31	90·31	
(6) *U.S. Export-Import Bank Loans*				
A. *Economic infrastructure*				
1. Aviation (Purchase of aircraft)	6·82	6·82	6·82	
B. *Industrial Development*				
1. Capital equipment for development programmes .	136·03	116·36	99·49	
C. *Unclassified*				
1. East India Hotels . .	0·34	..	..	
TOTAL—EXIM-BANK .	143·19	123·18	106·31	

1	2	3	4	5
(7) *U.S. AID Loans*				
'A' *Economic infrastructure*				
1. Railways	28·03	19·91	15·73	
2. Power	121·52	53·20	29·22	
'B' *Industrial Development*				
1. Capital equipment for development programmes	30·75	14·21	5·72	
2. Import of commodities & maintenance items	209·53	151·71	130·22	
3. Coal Washery Plants and aerial ropeway for collieries	8·10	2·00	1·70	
TOTAL—AID	397·93	241·03	182·59	
(8) *Canada*				
'A' *Economic infrastructure*				
1. Railways	3·39	3·39	..	
2. Power	19·81	19·81	..	
'B' *Industrial Development*				
1. Import of Capital Goods	0·44	0·44	..	
'C' *Unclassified*				
1. Wheat Loans	15·71	15·71	15·71	
TOTAL—CANADA	39·35	39·35	15·71	
(9) *Japan*				
'B' *Industrial Development*				
1. Capital equipment for development programmes including Orissa Iron Ore Project and import of textile machinery	107·75	81·01	43·71	*This does not include Japanes *ad-hoc* credit of Rs. 8·64 crores given in 1959.
TOTAL—JAPAN*	107·75	81·01	43·71	
(10) *Switzerland*				
'B' *Industrial Development*				
1. Capital equipment for development programmes	15·25	9·48	0·84	
TOTAL—SWITZERLAND	15·25	9·48	0·84	
(11) *France*				
'B' *Industrial Development*				
1. First, Second and third credit for Third Plan	33·33	17·44	..	
2. Loan to IFC for development of Private Industries	4·76	..	..	
TOTAL—FRANCE	38·09	17·44	..	

1	2	3	4	5
(12) *Italy*				
'B' *Industrial Development*				
1. ENI credit for petroleum industries in the Public Sector	21·43	11·63	0·24	
2. Capital equipment for projects & commodities .	25·61	3·17	1·48	
TOTAL—ITALY . .	47·04	14·80	1·72	
(13) Kuwait*	34·19	..	34·19	*Represents the value of special In ian notes which were in circulation in Kuwait. The notes have been repatriated to India and the amount has been treated as loan.
(14) *Austria*				
'B' *Industrial Development*				
1. Import of Capital Goods and mchinery . .	4·21	2·98	0·52	
(15) *Belgium*				
'B' *Industrial Development*				
1· Import of Capital Goods .	9·52	1·58	..	
(16) *Netherlands*				
'B' *Industrial Development*				
1. Import of capital goods .	13·15	1·18	..	
(17) *IMF Drawings*				
Balance of Payments Assistance	321·37	273·75*	273·75	*Notional
1. Total Loans/credits repayable in Foreign Currency	2452·40	1903·17	1570·84	
II. *Loans repayable through export of goods*				
1. *U. S. S. R.*				
'B' *Industrial Development*				
(*i*) For Steel Plant (Bhilai)	64·74	64·74	64·74	
(*ii*) Oil Refinery . .	11·91	11·91	10·05	
(*iii*) Drugs Project . .	9·52	9·23	5·31	
(*iv*) Industrial Develoment projects and programmes	297·64	170·76	84·99	
TOTAL U.S.S.R. .	383·81	256·64	165·09	
2. *Czechoslovakia*				
'B' *Industrial Development*				
1. Machine Building Industries	23·10	12·15	..	

1	2	3	4	5
(3) *Yugoslavia*				
'B' *Industrial Development*				
For import of Capital Goods, Ships etc.	19·05	8·14	0·09	
(4) *Poland*				
'B' *Industrial Development*				
For import of industrial machinery and equipment including coal industry . . .	29·80	13·07	1·04	
II. TOTAL REPAYABLE BY EXPORT OF GOODS .	455·76	290·00	166·22	
TOTAL OF I AND II .	2908·16	2193·17	1737·06	
III. *Loans repayable in Rupees*				
(1) *Denmark*				
'B' *Industrial Development*				
1. For import of Capital Goods . . .	1·03	0·04	..	
(2) *U.S.A.*				
Development Assistance Loans				
'B' *Industrial Development*				
1. Development projects	61·91	42·22*	61·91	*Balance of the loans made available in Rupees.
2. Orissa Iron Ore Project	8·76	8·76	6·33	
TOTAL . . .	70·67	50·98	68·24	
(3) *DLF (AID) Loan Agreements*				
A. Economic Infrastructure				
1. Railways	54·76	54·75	51·30	
2. Power	66·66	51·93	28·09	
'B' *Industrial Development*				
1. Equipment for Industries	65·32	60·46	55·38	
2. Import of Steel . .	40·19	39·38	39·38	
3. Jeep and Truck Components Imports . .	6·22	6·22	6·22	
4. Import of non-ferrous metals	9·52	9·52	9·52	
TOTAL—U.S.A. AID .	242·67	222·26	189·89	
(4) *Loans under PL* 480				
'B' *Industrial Development*				
1. To finance schemes of economic development .	518·05	..*	258·81	*As these are Rupee loans the question of overseas orders does not arise.
TOTAL REPAYABLE IN RUPEES	832·42	273·28	516·94	

APPENDIX IV

Statement showing the comparative position of agreements concluded, orders placed and amount disbursed against the loans/credits made available in foreign currency by foreign countries/institutions

(Rupees in Crores)

Position as on	Loans directly repayable in foreign currency	Loans repayable through export of goods (loans from USSR and other East Europeon countries	Loans repayable in Rupees but made available in foreign currency	Total
1	2	3	4	5
31-3-1956 (End of First Plan)				
Amount for which agreements concluded	147·6	64·7	14·6	226·9
Amount Disbursed	124·1 (84%)	.. ..	2·3 (16%)	126·4 (55%)
31-3-1961 (End of Second Plan)				
Amount for which agreements concluded	838·5	440·1	247·8	1526·4
Amount Disbursed	656·9 (78%)	75·0 (17%)	119·1 (48%)	851·0 (56%)
31-3-1962				
Amount for which agreements concluded	1161·8	440·1	296·2	1898·1
Amount Disbursed	826·7 (71%)	99·5 (23%)	158·5 (54%)	1084·7 (57%)
31-3-1963				
Amount for which agreements concluded	1777·2	455·8	294·0	2527·0
Orders placed	1330·8 (75%)	248·8 (55%)	262·1 (89%)	1841·8 (73%)
Amount Disbursed	1048·1 (58%)	132·5 (29%)	216·6 (74%)	1397·2 (55%)
30-9-1963				
Amount for which agreements concluded	1917·1	455·8	295·0	2667·9
Orders placed	1570·6 (82%)	281·6 (62%)	268·1 (91%)	2120·3 (79%)
Amount Disbursed	1190·5 (62%)	152·1 (33%)	232·7 (79%)	1574·6 59%)

1	2	3	4	5
31-12-1963				
Amount for which agreements concluded . . .	2105·5	455·8	295·0	2856·3
Orders placed . . .	1634·3 (78%)	290·0 (64%)	273·3 (93%)	2197·6 (77%)
Amount Disbursed . .	1267·8 (60%)	166·2 (36%)	238·4 (81%)	1672·4 (59%)

This statement excludes : (*i*) Drawings from IMF; (*ii*) Loans raised out of PL 480 and PL 665 funds; (*iii*) Grants; (*iv*) Kuwaiti Loan of Rs. 34·19 crores on account of repatriation of special Indian notes which were in circulation as legal tender in Kuwait.